

No.6/4/DPM

Jakarta, February 16, 2004

**CIRCULAR LETTER**

to

BANKS, SECURITIES BROKERS/DEALERS,  
AND RUPIAH AND FOREIGN EXCHANGE  
MONEY MARKET BROKERAGE COMPANIES

Subject : Issuance and Trading of Bank Indonesia Certificate

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In regard to Bank Indonesia Regulation Number 4/9/PBI2002 Concerning Open Market Operation dated November 18, 2002 (State Gazette of the Republic of Indonesia Year 2002 Number 126, Supplement to State Gazette Number 4243), as amended by Bank Indonesia Regulation Number 6/4/PBI/2004 dated February 16, 2004 (State Gazette of the Republic of Indonesia Year 2004 Number 17, Supplement to State Gazette Number 4365) and Bank Indonesia Regulation Number 4/10/PBI/2002 Concerning Bank Indonesia Certificates dated November 18, 2002 (State Gazette of the Republic of Indonesia Year 2002 Number 127, Supplement to State Gazette Number 4244), as amended by Bank Indonesia Regulation Number 6/5/PBI/2004 dated February 16, 2004 (State Gazette of the Republic of Indonesia Year 2004 Number 18, Supplement to State Gazette Number 4366) and Bank Indonesia Regulation Number 6/2/PBI/2004 Concerning Bank Indonesia - Scripless Securities Settlement System (State Gazette of the Republic of Indonesia Year 2004 Number 15, Supplement to State Gazette Number 4363), it is deemed necessary to prescribe regulations on the issuance and trading of Bank Indonesia Certificate in a Bank Indonesia Circular Letter, as follows:

I. GENERAL PROVISIONS

The terminologies ...

The terminologies used in this Circular Letter have the following meanings:

1. Bank is a commercial bank as referred to in Act Number 7 of 1992 Concerning Banking as amended by Act Number 10 of 1998, conducting conventional business operations.
2. Open Market Operations, hereinafter referred to as OMOs, are money market transaction activities conducted by Bank Indonesia with Banks and other parties in the framework of monetary control.
3. Bank Indonesia Certificates, hereinafter referred to as SBIs, are securities denominated in Rupiah currency issued by Bank Indonesia as a short term debt instruments.
4. SBI Auction is the sale of SBI by Bank Indonesia in the framework of implementing monetary policies.
5. Stop-out Rate, hereinafter referred to as SOR, is the highest discount rate in the auction in the context of achieving the quantity target of SBI to be sold by Bank Indonesia.
6. Demand Deposit account is a Bank's Rupiah fund account at Bank Indonesia.
7. Bank Indonesia– Real Time Gross Settlement system, hereinafter referred to as the BI-RTGS System, is a system for electronic fund transfer among BI-RTGS System members in the Rupiah currency with settlement conducted in real time on an individual transaction per transaction basis.
8. Bank Indonesia - Scripless Securities Settlement System, hereinafter referred to as the BI-SSSS, is a facility for doing transaction with Bank Indonesia including its administration and electronic administration of Securities which is directly connected among Participants, Organizer and the BI-RTGS System.
9. Central Registry is Bank Indonesia in performing the function as the Administrator of Securities for the interests of Banks, Sub-Registries and other parties approved by Bank Indonesia.

10. Sub-Registry is a Bank or agency in performing custodian activities and approved by Bank Indonesia to perform the Administration function of the Securities for the interests of customers.
11. SBI Transaction under a Repurchase Agreement, hereinafter referred to as Repo SBIs, is a conditional sale transaction of SBI with a repurchase obligation of the seller according to a determined price and tenor.
12. Outright SBI Transaction, hereinafter referred to as Outright SBI, is the purchase or sale transaction of SBI without an obligation to resale or to repurchase.
13. SBI Securities Account is securities account used to record the ownership of SBIs at the Central Registry.
14. Securities Settlement is the transfer of SBI ownership between holders of Securities accounts registered in the BI-SSSS in order to settle SBI transaction through the BI-SSSS.
15. Fund Settlement is the transfer of funds between holders of Rupiah Demand Deposit accounts at Bank Indonesia through the BI-RTGS System in order to settle Securities transaction through the BI-SSSS.
16. Delivery Versus Payment, hereinafter referred to as DVP, is a method of Securities Settlement in which Securities Settlement through the BI-SSSS is conducted simultaneously with Fund Settlement at Bank Indonesia through the BI-RTGS System.
17. Free of Payment, hereinafter referred to as FoP, is a method of securities settlement in which Securities Settlement is conducted through the BI-SSSS not simultaneously with Fund Settlement or if Securities Settlement is conducted without Fund Settlement.
18. Broker is a Rupiah and Foreign Exchange Money Market Broker and a Securities Broker/Dealer appointed by Bank Indonesia.

## II. ISSUANCE.....

## II. ISSUANCE OF SBI

### A. Characteristics of SBI

1. The unit of SBI is in the amount of Rp1,000,000 (one million Rupiah).
2. The tenor of SBI shall be no less than 1 (one) month and no longer than 12 (twelve) months stated in number of days and calculated as of the date of the transaction settlement until the date of maturity.

Illustration of the calculation of SBI tenor is provided in Attachment-1.

3. SBI shall be issued and traded under discount system.
4. Cash value of the transaction shall be calculated based on true discount, as follows:

$$\text{Cash Value} = \frac{\text{Nominal Value} \times 360}{360 + \{(\text{Discount Rate}) \times (\text{Tenor})\}}$$

5. Discount value shall be calculated as follows:

$$\text{Discount Value} = \text{Nominal Value} - \text{Cash Value}$$

The calculation of SBI Discount Value is illustrated in Attachment-2.

6. SBI shall be issued scripless.
7. SBI may be traded in secondary market.

### B. Principles and Requirements

1. SBI shall be issued in an auction mechanism.
2. SBI Auction shall be performed based on a quantity target with due observance to the incurred interest/discount rate.
3. Bank Indonesia shall announce the plan for SBI Auction not later than 1 (one) working day prior to the SBI Auction through the BI-SSSS facility and/or Money Market Information Center (PIPU) and/or other facilities designated by Bank Indonesia and shall state, among others, SBI tenors, indicative target, auction time, and settlement time.

4. SBI .....

4. SBI Auction shall be held on a Wednesday or on a working day following Wednesday or any other working day if Wednesday is a holiday every week and or every two weeks and or every month. If is necessary, Bank Indonesia may hold additional SBI Auction(s) on any other working day.
5. The maturity date of SBI shall be on a Thursday or on a working day following Thursday if Thursday is a holiday. If is necessary, Bank Indonesia may determine a maturity date on any other working day.
6. SBI Auction Participants are categorized as follows :
  - a. Direct participants, i.e. Banks and Brokers which conduct SBI Auction transactions directly with Bank Indonesia.
  - b. Indirect participants, i.e. Banks which place bids for SBI Auction through Brokers.
7. Banks may only place bids for SBI Auction for their own account.
8. Brokers are prohibited from placing bids for SBI Auction for their own accounts.
9. SBI Auction participants shall be held responsible for the accuracy of the submitted bidding data.
10. SBI Auction participants shall not be under sanction of a temporary or permanent discharge as the BI-SSSS participants.
11. Bank Indonesia shall only accept transaction submissions from Direct Participants and shall only utilize SBI Auction bidding data submitted by Direct Participants.
12. Bank Indonesia shall perform Fund Settlement and Securities Settlement as the result of SBI Auction on the primary market the next day after the SBI Auction day (one day settlement).
13. A Bank, either acting as a direct participant or as an indirect participant, is required to provide funds in the amount of transactions won in a relevant SBI Auction by the cut-off warning time of the BI-RTGS System for the purpose of SBI settlement on the primary market.

#### C. Implementation.....

C. Implementation and Submission of SBI Auction Bid.

1. On SBI Auction day, direct participants may place SBI Auction Bids to the Money Market Operation Division, Directorate of Monetary Management (OPU-DPM) through the BI-SSSS facility from 10.00 a.m. Western Indonesia Time until 02.00 p.m. Western Indonesia Time.
2. The placement of SBI Auction bid as referred to in point 1 shall cover the quantity and discount rate proposed by each SBI tenor under the following terms:
  - a. Submission of quantity bid from each SBI Auction participant shall be no less than 1,000 (one thousand) units or Rp.1,000,000,000 (one billion Rupiah), and the remainder shall be in a multiplication of 100 (one hundred) units or Rp 100,000,000 (one hundred million Rupiah).
  - b. Discount rate bid shall be in a multiplication of 0,0625% (six hundred twenty-five per million)
3. The bid placement mechanism of SBI Auction through the BI-SSSS shall be in accordance with the procedures as referred to in the prevailing Circular Letter(s) concerning the BI-SSSS.

D. Determination of SBI Auction Winner.

1. Bank Indonesia may adjust the realized quantity of SBI Auction outcome compared to the announced indicative quantity target or cancel the entire quantity of the SBI Auction outcome.
2. Bank Indonesia shall determine the quantity of SBI Auction outcome won by each SBI Auction participating Bank as follows:
  - a. In the event that the discount rate proposed is lower than SOR, the relevant auction participant shall obtain the entire bid amount;
  - b. In the event that the discount rate proposed is equivalent to SOR, the relevant auction participant may obtain the entire bid amount or a portion of the SBI bid calculated proportionally.

Sample .....

Sample calculation for determining an SBI Auction winner is illustrated in Attachment-3.

3. Bank Indonesia shall announce the SBI Auction outcome comprehensively through the BI-SSSS facility and or PIPU and or any other facilities on the SBI Auction day, covering, among others, the quantity of accepted SBI Auction outcome and or the weighted average of SBI Auction discount rates.
4. Bank Indonesia shall announce the SBI Auction outcome to each direct participant whose bid is accepted through the BI-SSSS facility, covering, among others, the bid quantity and SBI discount rate.

E. Settlement of SBI Issuance Transaction and Redemption

1. Bank Indonesia shall conduct Fund Settlement of the SBI Auction outcome by debiting the Demand Deposit account of the relevant Bank and crediting the SBI Securities Account of the relevant Bank at Central Registry.
2. In the event that a Bank does not have sufficient balance in its Demand Deposit account to cover the entire Fund Settlement obligation of the Bank by the cut-off warning time of the BI-RTGS System, the SBI Auction portion that has been won by the relevant Bank shall be canceled.
3. Cancellation of transaction as referred to in point 2 shall be imposed only to SBI serial numbers of which full Fund Settlement cannot be conducted. For the transaction cancellation, the Bank shall be imposed with a sanction. An example of transaction cancellation is illustrated in Attachment-4.
4. Bank Indonesia shall redeem SBI at maturity pursuant to SBI ownership records in the BI-SSSS facility 1 (one) working day prior to the maturity date.
5. Bank Indonesia shall redeem SBI at maturity date by crediting the Demand Deposit account of the relevant Bank and debiting the SBI Securities Account of the relevant Bank at the Central Registry.

6. The settlement.....

6. The settlement mechanism for the issuance transaction and redemption of SBI through the BI-SSSS shall be in accordance with the procedures as referred to in prevailing Circular Letter(s) concerning the BI-SSSS.

### III. SBI TRADING ON THE SECONDARY MARKET

#### A. Repo SBI Trading with Bank Indonesia

##### 1. Principles in Repo SBI trading with Bank Indonesia

- a. Bank Indonesia shall only conduct Repo SBI transactions with Banks every working day.
- b. SBIs that can be sold under Repo mechanism to Bank Indonesia shall be SBIs owned by the concerned Banks with a remaining tenor of more than 2 (two) working days.
- c. The number of SBIs held by Banks that can be sold under Repo to Bank Indonesia shall be no more than 25% (twenty-five percent) of the average SBI series won by the Bank within 3 (three) SBI Auctions based on the records at Bank Indonesia.

Sample calculation of the number of SBIs that can be Repo-ed is illustrated in Attachment-5

- d. Repo Tenor shall be 1 (one) day.
- e. Repo discount rate shall be the higher of:
  - 1) the weighted average of morning session interbank money market 1(one) day interest rates on 1 (one) day prior to the transaction plus 100 (one hundred) basis points; or
  - 2) the weighted average of last auction's 1 month SBI discount rates plus 100 (one hundred) basis points.
- f. Transaction settlement of Repo SBIs shall be conducted on the Repo SBIs transaction day (same-day settlement) using the DVP mechanism.

g. Banks .....



- g. Banks submitting Repo SBI transactions are required to have a sufficient balance in their SBI Securities Account for the purpose of Securities Settlement and to have a sufficient balance in their Demand Deposit accounts for the purpose of Fund Settlement upon redemption.
- h. Applicant Bank shall not be under sanction of a temporary or permanent discharge as a the BI-SSSS participant.

2. Procedures for Repo SBI Transaction with Bank Indonesia

- a. Bank Indonesia shall accept Repo SBI transactions from Banks through the BI-SSSS facility which, among others, cover the quantity of the Repo SBIs and series of SBI to be Repo-ed from 15.00 hours Western Indonesia Time until 17.00 hours Western Indonesia Time.
- b. Mechanism for submitting Repo SBI transaction through the BI-SSSS shall be performed under the procedures as referred to in prevailing Circular Letter concerning the BI-SSSS.

3. Procedures for Settlement of Transaction and Redemption of Repo SBI at Maturity

- a. Bank Indonesia shall conduct Fund Settlement by crediting the Demand Deposit Account of the relevant Bank and shall conduct Securities Settlement by debiting the SBI Securities Account of the relevant Bank on the Repo SBI transaction day after the cut-off warning time of the BI-RTGS System.
- b. In the event that a Bank does not have a sufficient balance in its SBI Securities Account for Securities Settlement, the Repo SBI transaction shall be canceled.
- c. Upon the maturity date of the Repo SBIs, Bank Indonesia shall the perform Fund Settlement by debiting the relevant Bank's Demand Deposit account and Securities Settlement by crediting the relevant Bank's SBI Securities Account at the beginning of the day.

d. In the event .....

- d. In the event that a Bank does not have a sufficient balance in its Demand Deposit Account for the purpose of the settlement of Repo SBIs, the Repo SBIs settlement transaction shall be cancelled and the SBI Repo-ed shall be declared redeemed before maturity.
- e. Upon settlement of the SBIs as referred to in letter d, Bank Indonesia shall make a correction on the discount already recorded.
- f. Settlement Mechanism for transaction and redemption of Repo SBIs through the BI-SSSS shall be in accordance with the procedures as referred to in the prevailing Circular Letter(s) concerning the BI-SSSS.

**B. Inter Bank/Sub Registry Repo or Outright SBI Trading**

- 1. SBI holders may trade his/her SBIs under Repo or Outright principles as agreed by the transacting parties.
- 2. SBIs that can be traded on the secondary market shall have a remaining tenor of more than 1 (one) working day.
- 3. Transaction settlement of SBI trading on the secondary market shall be conducted under DVP mechanism.
- 4. Application of FoP mechanism in SBI trading may only be performed by SBI holders in the context of a grant, inheritance, settlement of obligations from and to Bank Indonesia, or account closing as referred to in the prevailing Circular Letter(s) concerning the BI-SSSS.
- 5. Mechanism for SBI transaction on the secondary market through the BI-SSSS facility shall be performed pursuant to the procedures as referred to in the prevailing Circular Letter(s) concerning the BI-SSSS.

**IV. SANCTIONS**

- 1. In the event of a cancellation of SBI Auction transaction as referred to in point II.E.3 and cancellation of Repo SBI transaction as referred to in point III.A.3.b., the Bank shall be imposed with a sanction in the form of:

a. Warning .....

- a. Warning letter as referred to in Attachment-6 with copies to:
    - 1) the Relevant Directorate of Bank Supervision, if the sanction is imposed on a Bank having a head office in the work area of Bank Indonesia Head Office; or
    - 2) The Bank Supervision Team- local Bank Indonesia Office (KBI), if the sanction is imposed on a Bank having a head office in the work area of a KBI; and
  - b. Payment Obligation of 1<sup>0</sup>/<sub>00</sub> (one-thousandth) of the nominal value of the cancelled SBI transaction or no more than Rp 1,000,000,000. (one billion Rupiah).
  - c. Temporary discharge from participating in OMO activities for 5 (five) working days in the event that direct participants or indirect participants are imposed with a written warning for the third time within a period of 6 (six) months due to cancellations of SBI transaction on the primary market and or cancellations of Repo SBIs transactions with Bank Indonesia and or cancellations of FASBI transactions pursuant to prevailing laws and regulations.
2. Delivery of the warning letter as referred to in point 1.a and the notice of temporary discharge from participating in OMO activities as referred to in point 1.c. shall be made 1 (one) working day after the transaction cancellation.
  3. Imposition of payment obligation sanction as referred to in point 1.b. shall be done by debiting the Demand Deposit Account of the relevant Bank at Bank Indonesia 1 (one) working day after the transaction cancellation.

## V. CLOSING PROVISIONS

With the validity of this Circular Letter, Bank Indonesia Circular Letter Number 5/9/DPM concerning Procedures for the Issuance, Trading and Administration of Bank Indonesia Certificate dated June 10, 2003 shall be declared invalid.

Provisions .....

Provisions of this Circular Letter shall be effective as of February 16, 2004.

For the public to be informed, this Circular Letter shall be promulgated by publishing it in the State Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

BUDI MULYA

DIRECTOR OF MONETARY MANAGEMENT